

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

City of Otsego
Allegan County, Michigan
**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**
Year ended June 30, 2005

CONTENTS

	<i>Page</i>
MANAGEMENT'S DISCUSSION AND ANALYSIS	i - viii
INDEPENDENT AUDITORS' REPORT	3
BASIC FINANCIAL STATEMENTS:	
Government-wide financial statements:	
Statement of net assets	4
Statement of activities	5
Fund financial statements:	
Balance sheet - governmental funds	6
Statement of revenues, expenditures, and changes in fund balances - governmental funds	7
Statement of net assets - proprietary funds	8
Statement of revenues, expenses and changes in fund net assets - Proprietary funds	9
Statement of cash flows - proprietary funds	10
Statement of net assets - fiduciary funds	11
Notes to financial statements	12 - 22
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary comparison schedule:	
General Fund	23
SUPPLEMENTARY INFORMATION:	
Combining balance sheet - non-major governmental funds	24
Combining statement of revenues, expenditures and changes in fund balances - non-major governmental funds	25
Balance sheets - governmental funds	26
Statement of revenues, expenditures, and changes in fund balance - budget and actual:	
General Fund	27 - 28
Major Street Fund	29
Local Street Fund	30
Street and Bridge Fund	31
Special Assessment Capital Project Fund	32

CONTENTS (Continued)

	<i>Page</i>
Statement of revenues, expenses, and changes in net assets - budget and actual:	
Sewer Fund	33
Water Fund	34
Land Development Fund	35
DPW Equipment Fund	36
Downtown Development Authority:	
Balance sheet	37
Statement of revenues, expenditures and changes in fund balance - budget and actual	38

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Otsego, Michigan Management's Discussion and Analysis

The following discussion and analysis is intended as a narrative overview of the City of Otsego's operations over the fiscal year and its financial condition on June 30, 2005.

Financial Highlights

- \$ The City's total net assets increased \$418,249, or 3.4 percent, as a result of this year's operations. Net assets of the governmental activities increased \$194,744, or 3.2 percent, whereas net assets of the business-type activities increased \$223,505, or 3.5 percent.
- \$ Of the \$12,814,352 total net assets reported, \$3,546,648 is available to be used to meet future operating and capital improvement needs.
- \$ The General Fund unreserved undesignated fund balance at the end of the fiscal year was \$799,375 which represents 39.5 percent of the actual total General Fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis introduces the City's basic financial statements that follow this section. The City's basic financial statements are comprised of three components: government-wide financial statements, fund financial statements and notes to the financial statements. Additional supplementary information is also included to provide a more detailed view of the City's financial structure and support to the information provided in the basic financial statements.

This is the second year using the Governmental Accounting Standards Board Statement 34 (GASB 34) reporting format. A comparative analysis of the basic financial statements will be made using the current and last year's basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a format similar to that of private-sector financial statements. The Statement of Net Assets and the Statement of Activities are designed to be corporate-like in that all the governmental and business-type activities are consolidated into columns that add to a total for the Primary Government. These statements should help the reader to answer the question: Is the City, as a whole, in a better or worse financial position as a result of this year's activities. These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are recognized regardless of when cash is received or paid.

The Statement of Net Assets reports all of the City's assets and liabilities along with the difference between the two, which is identified as the net assets. This statement combines and consolidates short-term spendable resources (e.g., cash, receivables, inventory, etc) with capital assets. Increases and decreases in net assets may serve as an indicator over time as to whether the City's financial position is improving or deteriorating. However, other factors must also be considered when evaluating the overall financial position such as the status of the City's infrastructure and property tax base.

The Statement of Activities reports both the gross and net cost of the various programs and activities of the City that are funded by property taxes and other revenue sources. This presentation is intended to summarize the cost of providing the various governmental services. This statement also shows the change in the City's net assets over the fiscal year. All changes in net assets are reported when the underlying events occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements report three types of activities:

1. *Governmental Activities.* These activities include functions most commonly associated with government (e.g., police, fire, public works, parks, etc.). Property taxes and intergovernmental revenues usually fund these services.
2. *Business-Type Activities.* These activities provide services that are supported by customer user fees. The user fees are calculated to provide all or the majority of the operating costs involved in providing the services. The City operates two business-type activities that reflect the private sector type operations, water and sewer services. The City operates a third activity referred to as the Capital Project Fund which is classified as a business-type activity because it currently involves residential plat development, which is recovered through the sale of lots.
3. *Discretely Presented Component Units.* Component units are legally separate organizations which the City (the City Commission) can exercise influence and/or for which the City is financially accountable. The City has one component unit, the City of Otsego Downtown Development Authority (DDA). The financial statements are primarily focused on the City. The component unit information, however, is presented to show its activity and relative financial relationship to the primary government.

Fund Financial Statements

Fund financial statements are presented in a manner similar to the reporting format of prior years. These detail the activity that has occurred in the City's most significant funds. Individual funds, or fund accounting, is necessary to track revenues and expenditures that are directly related to specific activities or required by statute/ordinance to be budgeted and accounted for separately. To be reported separately and considered as a major fund, however, a fund's total assets, liabilities, revenue or expenditures must be at least 10 percent of the total assets, liabilities, revenue or expenditures for all funds of that category or type.

The City's funds are classified into three categories which each use a different accounting approach:

1. *Government Funds.* These funds account for essentially the same functions reported as governmental activities in the government-wide financial statements mentioned above. The governmental fund statements, however, are presented on a modified accrual basis, which focuses on the short-term (60 day) sources and uses of available resources, as well as the balance of spendable resources at the end of the fiscal year. A review of these statements can show if there has been an increase or decrease in the resources available to continue providing services to our residents. The relationship between governmental activities reported in the Statement of Net Assets and Statement of Activities and the governmental fund statements is reconciled in the financial statements. Governmental funds include the General Fund, special revenue funds, capital project funds and debt service funds.
2. *Proprietary Funds.* Proprietary funds account for the expenditures involved in providing particular services to customer who are then charged fees calculated to recover the costs of operation. These funds use accrual accounting which is the same method used by private sector businesses. The City maintains two different types of proprietary funds: enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer and land development services. Internal service funds are used to accumulate and allocate costs internally across various City functions. The City uses internal service funds to account for its DPW Equipment Fund that essentially functions as a motor pool. Because the equipment is rented by the hour to provide services which predominately benefit governmental rather than business-type functions, it is included within governmental activities of the government-wide financial statements.
3. *Fiduciary Funds.* These funds record the collection and disbursement of resources, primarily taxes, for the benefit of parties outside the government. These funds are not reported in the government-wide financial statement because the resources reported here represent a trust relationship and are not, therefore, available to the City to provide services to residents. The City is responsible for

ensuring that the assets reported in these funds are used for their intended purpose. The City's fiduciary activities are reported in separate Statements of Net Assets - Fiduciary Fund. This fund is also reported using accrual accounting.

Notes to the Basic Financial Statements

The notes provide additional information that is necessary to understand of data reported in the government-wide and fund financial statements.

Required Supplementary Information

Following the basic financial statements is additional required supplementary information that further explains and supports the information in the financial statements. The required supplementary information includes budgetary comparison schedules.

Supplementary Information

Following the required supplementary information are combining financial statements for non-major governmental funds. These funds are added together and presented in a single column in the basic financial statements, but are not reported individually, as with major funds, on the governmental fund financial statements. This section also includes governmental fund balance sheets, budgetary comparison schedules for each of the City's funds, and financial statements for the component unit.

Financial Analysis of the Government as a Whole

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The Statement of Net Assets reveals favorable or positive balances in all three of the government-wide columns (Governmental Activities, Business-Type Activities and Totals), as well as the Component Unit column. A negative balance would indicate a deficit situation that would require further disclosure of plans to reverse the balance in the subsequent fiscal year.

A two-year comparison of the Statement of Net Assets is shown in Table 1. In the City's case, total assets exceeded total liabilities at the end of the fiscal year by \$12,814,352. However, the majority of the City's net assets (61.9 percent) represent an investment in capital assets (e.g., land, roads, storm sewers, water and sewer systems, buildings and equipment) less outstanding debt used to acquire or construct these assets. Because the City uses these capital assets to provide essential services to citizens, these assets are not available to be liquidated for future spending needs. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to repay the debt must be provided from other sources because the capital assets themselves cannot be used to satisfy these liabilities.

Overall, net assets increased at 3.4 percent. This can be mostly attributed to an increase in current assets, namely cash, and a decrease in liabilities, including debt repayment. Although the current assets can be attributed to increased tax revenues not captured by the DDA and reduced capital spending, the change in liabilities may likely be attributed to timing of accounts payable.

Except for the \$1,336,112 restricted for public works, public safety activities and bond debt repayment, the City may use the remaining balance of unrestricted net assets of \$3,546,648, 27.7 percent of total net assets, to meet its ongoing obligations to citizens and creditors. Unrestricted net assets for government activities grew by over 15 percent for the fiscal year, where unrestricted assets only grew for the business type activities by 4.7 percent. Again, the governmental activity growth can be largely attributed to revenue increases and planned expenditure reductions as the administration took a conservative approach to the cool economic climate. The current level of unrestricted net assets for governmental activities represents about 56 percent of the past fiscal year's expenditures. The unrestricted assets are not necessarily cash or cash equivalents and this unrestricted net asset balance could easily be depleted in one or more substantial capital improvement projects or the continued economic downturn.

Table 1
Statement of Net Assets – Two Year Comparison
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Totals	
	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05
Assets						
Current Assets	\$ 2,245	\$ 2,580	\$ 2,350	\$ 2,398	\$ 4,596	\$ 4,978
Noncurrent Assets	\$ 4,041	\$ 3,925	\$ 5,142	\$ 5,063	\$ 9,183	\$ 8,988
Total Assets	\$ 6,287	\$ 6,505	\$ 7,492	\$ 7,461	\$ 13,779	\$ 13,966
Liabilities						
Current Liabilities	\$ 196	\$ 133	\$ 303	\$ 215	\$ 499	\$ 347
Noncurrent Liabilities	\$ 93	\$ 106	\$ 843	\$ 698	\$ 936	\$ 804
Total Liabilities	\$ 289	\$ 239	\$ 1,145	\$ 913	\$ 1,434	\$ 1,152
Net Assets						
Capital Assets Net of Debt	\$ 4,026	\$ 3,836	\$ 4,041	\$ 4,095	\$ 8,068	\$ 7,932
Restricted Assets	\$ 846	\$ 1,133	\$ 157	\$ 203	\$ 1,003	\$ 1,336
Unrestricted Assets	\$ 1,126	\$ 1,298	\$ 2,148	\$ 2,249	\$ 3,274	\$ 3,547
Total Net Assets	\$ 5,998	\$ 6,267	\$ 6,346	\$ 6,548	\$ 12,344	\$ 12,814

Statement of Activities

A similar two-year comparison of the Statement of Activities is shown in Table 2. This table identifies many of the substantial changes that occurred in revenues and expenditures over the fiscal year.

A review of the governmental activities shows a substantial decrease in the Capital Grants and Contributions. In fiscal year 2003-04 a one-time grant was received from a corporation for costs related to a city dam remediation project.

Under expenditures, a proportionately high increase occurred for legislative expenditures from the prior fiscal year, however, the difference in dollars amounted to only \$4,817 and represented the nominal increase in commissioner compensation. A substantially higher percentage and dollar increase occurred in the Gain (Loss) on Sale of Fixed Assets. The loss is shown for the past fiscal year represents, primarily, the transfer of the library facility to the Otsego District Public Library Board.

Governmental activities increase the City's net assets by \$194,744, thereby accounting for 46.6 percent of the total growth in the net assets of the City. Key factors allowing for this increase are:

- \$ Conservative budgeting, allowing for reduction in State Shared Revenues in the General Fund.
- \$ Additions to fund balance for all funds, as a result of holding spending levels at or below revenues received.

Business-type activities increased the City's net assets by \$223,505, accounting for the remaining 53.4 percent of the total growth in the City's net assets. Key factors of this increase are as follows:

- \$ Continued conservative budgeting due to an anticipated reduction in industrial utility use,
- \$ Revenue levels exceeding expenses that resulted in additions to fund net assets.

A review of the business-type activities shows a notable growth in the charges for services and land development expense. Both of these may be attributed to increased residential and commercial lot sales.

Table 2
Statement of Activities - Two Year Comparison
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Totals	
	2003-04	2004-05	2003-04	2004-05	2003-04	2004-05
Program Revenues						
Charges for Services	\$ 205	\$ 207	\$ 1,204	\$ 1,406	\$ 1,409	\$ 1,613
Operating Grants & Contributions	\$ 338	\$ 330	\$ -	\$ -	\$ 338	\$ 65
Capital Grants & Contributions	\$ 152	\$ -	\$ -	\$ -	\$ 152	\$ -
General Revenues						
Property Taxes	\$ 1,237	\$ 1,408	\$ -	\$ -	\$ 1,237	\$ 1,408
Public Service Tax	\$ 110	\$ 117	\$ -	\$ -	\$ 110	\$ 117
State Grants	\$ 406	\$ 397	\$ -	\$ -	\$ 406	\$ 662
Franchise Fees	\$ 33	\$ 32	\$ -	\$ -	\$ 33	\$ 32
Investment Income	\$ 22	\$ 50	\$ 14	\$ 36	\$ 36	\$ 87
Other Revenue	\$ 38	\$ 25	\$ -	\$ -	\$ 38	\$ 25
Gain (loss) on Sale of Fixed Assets	\$ 9	\$ (45)	\$ -	\$ -	\$ 9	\$ (45)
Total Revenues	\$ 2,551	\$ 2,521	\$ 1,218	\$ 1,442	\$ 3,769	\$ 3,963
Program Expenses						
Legislative	\$ 7	\$ 12	\$ -	\$ -	\$ 7	\$ 12
General Government	\$ 520	\$ 504	\$ -	\$ -	\$ 520	\$ 504
Public Safety	\$ 1,005	\$ 1,047	\$ -	\$ -	\$ 1,005	\$ 1,047
Public Works	\$ 611	\$ 653	\$ -	\$ -	\$ 611	\$ 653
Community and Economic Dev.	\$ 1	\$ 2	\$ -	\$ -	\$ 1	\$ 2
Parks & Recreation	\$ 106	\$ 109	\$ -	\$ -	\$ 106	\$ 109
Land Development	\$ -	\$ -	\$ 231	\$ 287	\$ 231	\$ 287
Sewer	\$ -	\$ -	\$ 528	\$ 529	\$ 528	\$ 529
Water	\$ -	\$ -	\$ 374	\$ 403	\$ 374	\$ 403
Total Expenses	\$ 2,250	\$ 2,326	\$ 1,134	\$ 1,219	\$ 3,384	\$ 3,545
Changes in Net Assets	\$ 301	\$ 195	\$ 84	\$ 224	\$ 385	\$ 418

Financial Analysis of the City's Funds

The last section of the financial report, entitled "Supplementary Information," includes balance sheets and statements of revenues, expenditures and changes in fund balance in more detail for each of the City's funds. The latter statement also includes the amended budgets as adopted and approved for each fund. These reports will likely be more familiar to City Commissioners and staff as they are more closely formatted in a manner similar to the monthly financials reports.

General Fund

The General Fund is the chief operating fund of the City. At the end of the fiscal year, unreserved fund balance was \$799,375. An additional \$60,000 is designated for the purchase of a fire truck, and the reserved fund balance was \$3,407. Total fund balance increased by \$212,044. This savings can be attributed to reduced or delayed equipment purchases in anticipation of possible cash shortages. The administration believed the General Fund might be required to temporarily fund the repurchase of a commercial piece of property involved in litigation and also temporarily fund the design of the new department of public works facility until it became an approved project of the component unit.

The differences between the original budget and the final amended budget for revenue and expenditures were relatively minor (\$32,640 or 1.5 percent increase and \$37,080 or 1.5 percent decrease, respectively). However the difference between the final amended and the actual expenditure amounts was most significant. Expenditures were \$518,434 less than budgeted. The difference between the actual and budgeted can be largely attributed to the approval of the new department of public works location design and construction as a DDA project. Consequently the General Fund continues to maintain a healthy unrestricted fund balance in excess of the recommended 25 to 30 percent of expenditures, which will help the City maintain its current level of services during the current economic downturn. This year unreserved and undesignated fund balance represented 39.5 percent of expenditures.

Major Street Fund

The City receives revenues from the State of Michigan to maintain 8.44 miles of major streets as defined by Public Act 51 of 1951. Also included in this fund are operating costs to maintain the M-89 State Highway, according to contract. Because of only one small capital improvement project and cost containment within the operations and maintenance budget, fund balance increased by \$137,532 to \$315,115. This fund balance will be available for future capital improvement projects.

Local Street Fund

The City receives revenues from the State of Michigan to maintain 12.7 miles of local streets as defined by Public Act 51 of 1951. Subsidies are regularly transferred from the Major Street Fund and/or the Street and Bridge Fund to accumulate sufficient resources to cover anticipated future street maintenance costs. Revenues and other sources, including a \$32,315 transfer from the Street & Bridge Fund, exceeded expenditures by \$56,883, increasing fund balance to \$228,308. This fund balance will be available for future capital improvement projects

Street & Bridge Fund

The Street and Bridge Fund is a special revenue fund where the City receives a portion of the road tax collected by Allegan County. Because the county does not maintain any roads within the City and there are no other agreements otherwise between the county and the City, the County provides a portion of these monies to the City for capital improvement projects or road maintenance in accordance with Michigan Compiled Laws 224.20b. Revenues exceeded the transfer to the Local Street Fund, so that fund balance increased by \$91,956, 18.6 percent, to \$585,825.

Special Assessment Capital Project Fund

The fund did not provide any resources to capital improvement projects, and realized a 14.3 percent increase in fund balance from the collection of outstanding special assessments and investment interest.

Sewer Fund

Total revenues were \$25,316, or 4.0 percent less than original projections. Charges for services, however, showed a greater variation with revenues of \$44,869 or 7.4 percent less than projected. Even with less than expected revenues and increased expenses, Total Net Assets increased \$71,599 or 1.9 percent over the fiscal year due to cost containment and postponement of a capital improvement project to increase plant efficiency and reduce the use of chlorine gas. Total Net Assets are \$3,911,742 at year-end.

Water Fund

Total revenues were more than projected by \$18,965, or 4.8 percent. Charges for services, however, also exceeded expectations by 3.1 percent. Total operating expenses also exceeded projections by \$36,032, or 10.0 percent. Even with expenditures up more than double the difference in projected revenues, Total Net Assets increased \$5,553 or 1.0 percent over the fiscal year. Total Net Assets are \$1,979,519 at year-end.

Land Development Fund

This fund is also a proprietary fund and has been involved with the development of seven residential plats and three commercial parcels with M-89 frontage. Lot prices in each of the plats have been calculated to offset construction and land acquisition costs. During the fiscal year, 13 residential lots were sold, leaving 29 lots available for sale. Also, the smallest of the commercial lots was sold and the largest of the commercial parcels repurchased from a developer who failed to begin development on the parcel according to contractual provisions with the City. This leaves two commercial lots available for sale at year-end. The value of the lots held as inventory at year-end totaled \$885,904. Lot sales of \$429,165 during the fiscal year exceeded the related development costs of \$211,211, yielding a profit on sales of \$217,954. Taking other expenses into consideration, net assets increased by \$144,589 or 28.2 percent to \$657,115.

DPW Equipment Fund

Operating revenues and expenses were both less than projected, 1.3 and 15.1 percent, respectively. Both can be attributed to a reduction in equipment use due to another light winter and less work in the City parks for capital improvements. The fund did see its net assets increase by 6.1 percent to \$440,820.

Capital Assets and Debt Administration

Capital Assets:

The City investment in capital assets for its governmental and business-type activities as of June 30, 2005 amounts to \$8,571,592 (net of accumulated depreciation). This investment includes a broad range of assets. Overall there was a total decrease in the City's net investment in capital assets for the current fiscal year of \$261,339. A major portion of the decrease was due to the sale of the library building to the Otsego District Library.

This year's major capital events included the following:

- \$ Repainting of the water reservoir to extend its service life.
- \$ 1 city manager car
- \$ 1 mower
- \$ 1 brush chipper

Sewer Fund:

Capital Improvements were 100.0 percent less than the \$400,000 originally anticipated. The improvements scheduled for the wastewater plant to add aqua-disk tertiary treatment and ultraviolet disinfection were postponed in order to obtain additional information regarding state discharge requirements into the Kalamazoo River and engineer recommendations in order to address those requirements.

Water Fund:

The capital improvement for this fund consisted of the repainting of the water reservoir. The painting has been capitalized due to the cost of \$102,542 and the estimated useful life of 15 years.

Component Unit - Otsego Downtown Development Authority

DDA expenditures included the final \$113,158 in construction costs for the Phase 13 construction project renovating a turn of the century "Waterworks" building for use as a museum and attraction to the downtown. Other capital expenditures included \$58,541 in costs associated with the engineering and surveying the proposed new department of public works location which will be referred to as Phase 14 of the DDA Development Plan.

Additional information regarding the City's capital assets can be located in the Note 6 of the notes to basic financial statements.

Long-Term Debt:

At the end of the fiscal year, the City had total long-term bonds and notes outstanding of \$842,628. Of this amount, \$202,628 comprises debt backed by the full faith and credit of the City. There is no debt backed by the limited full faith and credit of the City. Another \$640,000 represents bonds secured solely by specific revenue sources (i.e., revenue bonds).

The last rating the City received from Standard & Poor's for limited tax general obligation debt was a "BBB-" in 2002.

State statutes limit the amount of general obligation debt the City can issue to 10 percent of its total state equalized assessed value of property. The City's total general obligation debt (\$202,628) is significantly lower than the current state-imposed limit of \$12,827,653.

Other long-term debt obligations totaling \$105,765 represent accrued compensated absences. Additional information is presented in Note 7 to the basic financial statements.

Economic Condition and Outlook

The City's budget for the next year projects no change in State Share Revenues. This comes after three years of increasingly reduced revenues from the State. Property tax revenues are projected to decrease 0.7 percent or approximately \$11,000 overall. Some of the overall reduction is due to the closure of the Rock-Tenn Corporation paper mill in 2004 and reductions in existing personal property values due to depreciation. On June 10, 2005, just before the end of the fiscal year, the Menasha Corporation notified the City it was in the process of trying to sell its local paper mill operation and that if a buyer was not found, it would close the mill on August 9, 2005. At the time of this analysis, a buyer has not been identified and the mill is closed with the production labor force separated from employment. This facility was the City's largest taxpayer for the 2004 tax year, representing 23.6 percent of the tax base.

The City's component unit, the DDA, was recently authorized by the City to increase its boundaries, add the construction of a new department of public works facility to its development plan and extend the life of the development plan an additional twenty years until 2025. Therefore, the DDA is budgeting a 40 percent increase in revenues from tax increment financing. This increase will result in a reduction in tax revenues to the General Fund of approximately \$105,000. To offset the anticipated shortfall, additional cost saving measures will continue such as delays or freezes in capital purchases, program reductions and staff reductions.

The City's utilities continue to increase their net assets, even during periods where decreases have been expected. This demonstrates the very conservative and careful attention of management to maintenance and cost containment. Resources to continue infrastructure improvement and expansion are being used at a faster rate than excess revenues can replenish, however. This fact, along with lower consumer use than projected, caused an overall increase in sewer and water commodity rates from \$4.46 to \$5.00 for each 1,000 gallons of water used. This represents a 12.1 percent increase in commodity rates for the 2005-2006 fiscal year. The closure of the Menasha Corporation paper mill previously discussed will also have a significant impact on the City's utilities, if the plant is not reopened. The mill generated 18.7 percent of the sewer and water utility revenues. This marks the end of the three-year period where the current utility rate structure was introduced with a pledge by the City to maintain stable rates during the evaluation period.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City's finances to its citizens, customers, investors and creditors, and to demonstrate the City's accountability for the money it receives. Questions regarding any information provided in this report or request for additional financial information should be addressed to:

City of Otsego
117 East Orleans Street
Otsego, MI 49078-1199

E-Mail: finance.dir@ci.otsego.mi.us

INDEPENDENT AUDITORS' REPORT

City Commission
City of Otsego, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Otsego, Michigan, as of June 30, 2005, and for the year then ended, which collectively comprise the City's basic financial statements, as listed in the contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Otsego, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and budgetary comparison information on pages i through viii and 23, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Otsego, Michigan's basic financial statements. The combining fund financial statements, as listed in the contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City of Otsego, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Siegfried Crandall P.C.

August 19, 2005

BASIC FINANCIAL STATEMENTS

City of Otsego
STATEMENT OF NET ASSETS
June 30, 2005

	Primary government			Component unit
	Governmental activities	Business-type activities	Totals	
ASSETS				
Current assets				
Cash	\$ 2,125,301	\$ 1,329,001	\$ 3,454,302	\$ 146,464
Receivables, net	227,370	264,709	492,079	-
Interfund balances	119,969	(119,969)	-	-
Due from component unit	59,960	-	59,960	-
Inventory	6,889	914,294	921,183	-
Prepaid costs	40,267	9,846	50,113	643
Total current assets	2,579,756	2,397,881	4,977,637	147,107
Noncurrent assets				
Restricted cash	-	327,695	327,695	4,746
Receivables, net	88,984	-	88,984	-
Capital assets, net of accumulated depreciation	3,836,467	4,735,125	8,571,592	1,309,316
Total non-current assets	3,925,451	5,062,820	8,988,271	1,314,062
Total assets	6,505,207	7,460,701	13,965,908	1,461,169
LIABILITIES				
Current liabilities				
Accounts payable	90,327	10,857	101,184	10,393
Accrued liabilities	34,443	20,482	54,925	689
Due to primary government	-	-	-	59,960
Customer deposits	7,978	-	7,978	-
Current portion of long-term obligations	-	183,337	183,337	-
Total current liabilities	132,748	214,676	347,424	71,042
Noncurrent liabilities				
Long-term obligations	105,765	698,367	804,132	-
Total liabilities	238,513	913,043	1,151,556	71,042
NET ASSETS				
Invested in capital assets, net of related debt	3,836,467	4,095,125	7,931,592	1,309,316
Restricted for:				
Bond retirement	-	203,457	203,457	-
Public works	1,129,248	-	1,129,248	-
Public safety	3,407	-	3,407	-
Unrestricted	1,297,572	2,249,076	3,546,648	80,811
Total net assets	\$ 6,266,694	\$ 6,547,658	\$ 12,814,352	\$ 1,390,127

See notes to the financial statements

City of Otsego
STATEMENT OF ACTIVITIES
Year ended June 30, 2005

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>	
		<u>Charges for services</u>	<u>Operating grants and contributions</u>
Primary government			
<i>Governmental activities:</i>			
Legislative	\$ 12,258	\$ -	\$ -
General government	504,290	5,802	-
Public safety	1,046,641	120,720	4,664
Public works	652,581	73,185	325,352
Community and economic development	1,585	5,129	-
Parks and recreation	<u>108,836</u>	<u>1,875</u>	<u>-</u>
<i>Total governmental activities</i>	<u>2,326,191</u>	<u>206,711</u>	<u>330,016</u>
<i>Business-type activities</i>			
Land development	286,503	429,165	-
Sewer	528,850	573,720	-
Water	<u>403,253</u>	<u>403,019</u>	<u>-</u>
<i>Total business-type activities</i>	<u>1,218,606</u>	<u>1,405,904</u>	<u>-</u>
Total primary government	<u>\$ 3,544,797</u>	<u>\$ 1,612,615</u>	<u>\$ 330,016</u>
Component unit - DDA	<u>\$ 231,835</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues			
Taxes			
Public service tax			
State grants			
Franchise fees			
Investment income			
Other			
Special Items:			
Loss on sale of capital assets			
Total general revenues			
Change in net assets			
Net assets - beginning			
Net assets - ending			

<i>Net (expenses) revenues and changes in net assets</i>			
<i>Primary government</i>			
<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>	<i>Component unit</i>
\$ (12,258)		\$ (12,258)	
(498,488)		(498,488)	
(921,257)		(921,257)	
(254,044)		(254,044)	
3,544		3,544	
(106,961)		(106,961)	
(1,789,464)		(1,789,464)	
-	142,662	142,662	
-	44,870	44,870	
-	(234)	(234)	
-	187,298	187,298	
(1,789,464)	187,298	(1,602,166)	\$ -
-	-	-	(231,835)
1,407,855	-	1,407,855	236,198
117,056	-	117,056	-
396,723	-	396,723	-
32,436	-	32,436	-
50,296	36,207	86,503	3,303
24,939	-	24,939	1,700
(45,097)	-	(45,097)	-
1,984,208	36,207	2,020,415	241,201
194,744	223,505	418,249	9,366
6,071,950	6,324,153	12,396,103	1,380,761
\$ 6,266,694	\$ 6,547,658	\$ 12,814,352	\$ 1,390,127

See notes to the financial statements

City of Otsego
BALANCE SHEET - governmental funds
June 30, 2005

	<u>General</u>	<u>Special Assessment Capital Project</u>	<u>Other governmental funds</u>	<u>Totals</u>
ASSETS				
Cash	\$ 759,350	\$ 250,839	\$ 976,136	\$ 1,986,325
Receivables	23,988	108,434	409	132,831
Prepaid expenses	30,824	-	1,487	32,311
Due from other funds	18,886	-	100,136	119,022
Due from component unit	59,440	-	-	59,440
Due from other governmental units	<u>124,458</u>	<u>-</u>	<u>59,065</u>	<u>183,523</u>
Total assets	<u>1,016,946</u>	<u>359,273</u>	<u>1,137,233</u>	<u>2,513,452</u>
LIABILITIES				
Accounts payable	66,937	-	3,768	70,705
Accrued liabilities	54,571	-	1,820	56,391
Due to other funds	8,824	-	2,397	11,221
Due to other governmental units	15,854	-	-	15,854
Due to component unit	-	-	-	-
Customer deposits	7,978	-	-	7,978
Deferred revenue	<u>-</u>	<u>108,434</u>	<u>-</u>	<u>108,434</u>
Total liabilities	<u>154,164</u>	<u>108,434</u>	<u>7,985</u>	<u>270,583</u>
FUND BALANCES				
Reserved	3,407	-	-	3,407
Unreserved:				
Designated for capital outlay	60,000	-	-	60,000
Undesignated	<u>799,375</u>	<u>250,839</u>	<u>1,129,248</u>	<u>2,179,462</u>
Total fund balances	<u>\$ 862,782</u>	<u>\$ 250,839</u>	<u>\$ 1,129,248</u>	<u>2,242,869</u>

Amounts reported for *governmental activities* (page 4) in the statement of net assets are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds. 3,554,113

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 108,434

Internal service funds are used by management to charge costs of fleet management to individual funds. The assets and liabilities of the internal service funds are included in *governmental activities* in the statement of net assets. 441,563

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. (80,285)

Net assets of *governmental activities* \$ 6,266,694

See notes to the financial statements

City of Otsego
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - governmental funds
Year ended June 30, 2005

	<u>General</u>	<u>Special Assessment Capital Project</u>	<u>Other governmental funds</u>	<u>Totals</u>
REVENUES				
Taxes	\$ 1,407,855	\$ -	\$ -	\$ 1,407,855
Federal grants	2,883	-	-	2,883
State grants	398,504	-	287,269	685,773
Fines and forfeitures	16,698	-	-	16,698
Licenses and permits	69,198	-	-	69,198
Intergovernmental	68,565	-	134,872	203,437
Charges for services	49,446	-	-	49,446
Interest and rentals	27,219	8,225	14,809	50,253
Other	193,778	23,061	979	217,818
Total revenues	<u>2,234,146</u>	<u>31,286</u>	<u>437,929</u>	<u>2,703,361</u>
EXPENDITURES				
Legislative	12,258	-	-	12,258
General government	471,975	-	-	471,975
Public safety	931,542	-	-	931,542
Public works	473,684	-	151,558	625,242
Community and economic development	1,500	-	-	1,500
Recreation and culture - parks department	99,029	-	-	99,029
Debt service:				
Principal	15,334	-	-	15,334
Capital outlay	16,780	-	-	16,780
Total expenditures	<u>2,022,102</u>	<u>-</u>	<u>151,558</u>	<u>2,173,660</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>212,044</u>	<u>31,286</u>	<u>286,371</u>	<u>529,701</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	32,315	32,315
Transfers out	-	-	(32,315)	(32,315)
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	212,044	31,286	286,371	529,701
FUND BALANCES - BEGINNING	<u>650,738</u>	<u>219,553</u>	<u>842,877</u>	<u>1,713,168</u>
FUND BALANCES - ENDING	<u>\$ 862,782</u>	<u>\$ 250,839</u>	<u>\$ 1,129,248</u>	<u>\$ 2,242,869</u>
Net change in fund balances - total governmental funds				\$ 529,701
Amounts reported for <i>governmental activities</i> in the statement of activities (page 5) are different because:				
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation and loss on disposals exceeded capital outlay in the current period.				(214,706)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.				(150,752)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.				(8,435)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.				15,334
The net revenue of certain activities of the internal service fund is reported with <i>governmental activities</i> .				23,602
Change in net assets of governmental activities				<u>\$ 194,744</u>

See notes to the financial statements

City of Otsego
STATEMENT OF NET ASSETS - proprietary funds
June 30, 2005

	Business-type activities - Enterprise Funds				Governmental activities
			Land		DPW
	Sewer	Water	Development	Totals	Equipment
ASSETS					
Current assets					
Cash	\$ 1,023,040	\$ 218,023	\$ 87,938	\$ 1,329,001	\$ 138,976
Receivables:					
Accounts	161,657	99,660	-	261,317	-
Interest	1,703	1,689	-	3,392	-
Due from other funds	-	-	-	-	12,652
Due from component unit	-	-	-	-	495
Inventory	369	28,021	885,904	914,294	6,888
Prepaid expenses	6,725	3,121	-	9,846	7,957
Total current assets	<u>1,193,494</u>	<u>350,514</u>	<u>973,842</u>	<u>2,517,850</u>	<u>166,968</u>
Noncurrent assets					
Restricted cash	249,682	78,013	-	327,695	-
Capital assets, net:					
Sewer system	2,976,362	-	-	2,976,362	-
Water system	-	1,758,763	-	1,758,763	-
Buildings and equipment	-	-	-	-	282,354
Total capital assets	<u>2,976,362</u>	<u>1,758,763</u>	<u>-</u>	<u>4,735,125</u>	<u>282,354</u>
Total noncurrent assets	<u>3,226,044</u>	<u>1,836,776</u>	<u>-</u>	<u>5,062,820</u>	<u>282,354</u>
Total assets	<u>4,419,538</u>	<u>2,187,290</u>	<u>973,842</u>	<u>7,580,670</u>	<u>449,322</u>
LIABILITIES					
Current liabilities					
Accounts payable	7,205	1,626	2,026	10,857	3,768
Accrued expenses	29,622	17,863	12,073	59,558	3,532
Due to other funds	5,969	13,282	100,000	119,251	1,202
Customer deposits	-	-	-	-	-
Land contract - current	-	-	63,337	63,337	-
Bonds payable - current	105,000	15,000	-	120,000	-
Total current liabilities	<u>147,796</u>	<u>47,771</u>	<u>177,436</u>	<u>373,003</u>	<u>8,502</u>
Noncurrent liabilities					
Revenue bonds payable	360,000	160,000	-	520,000	-
Land contract payable	-	-	139,291	139,291	-
Total noncurrent liabilities	<u>360,000</u>	<u>160,000</u>	<u>139,291</u>	<u>659,291</u>	<u>-</u>
Total liabilities	<u>507,796</u>	<u>207,771</u>	<u>316,727</u>	<u>1,032,294</u>	<u>8,502</u>
NET ASSETS					
Investment in capital assets, net of related debt	2,511,362	1,583,763	-	4,095,125	282,354
Restricted bond retirement	140,444	63,013	-	203,457	-
Unrestricted, unallocated	1,259,936	332,743	657,115	2,249,794	158,466
Total net assets	<u>\$ 3,911,742</u>	<u>\$ 1,979,519</u>	<u>\$ 657,115</u>	<u>6,548,376</u>	<u>\$ 440,820</u>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				(718)	
Net assets of business-type activities				<u>\$ 6,547,658</u>	

See notes to the financial statements

City of Otsego
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - proprietary funds
Year ended June 30, 2005

	Business-type activities - Enterprise Funds				Governmental activities
	Sewer	Water	Land Development	Totals	DPW Equipment
OPERATING REVENUES					
Charges for services	\$ 561,331	\$ 390,078	\$ 429,165	\$ 1,380,574	\$ 142,361
Other	12,389	12,941	-	25,330	13,632
Total operating revenues	573,720	403,019	429,165	1,405,904	155,993
OPERATING EXPENSES					
Mains	49,610	163,011	-	212,621	-
Wastewater treatment plant	292,983	-	-	292,983	-
Water pumping	-	127,145	-	127,145	-
Administration	53,132	44,177	-	97,309	-
Other	-	-	271,284	271,284	90,444
Depreciation	102,819	61,124	-	163,943	44,359
Total operating expenses	498,544	395,457	271,284	1,165,285	134,803
Operating income	75,176	7,562	157,881	240,619	21,190
NONOPERATING REVENUES (EXPENSES)					
Interest	27,164	7,116	1,927	36,207	1,917
Sale of fixed assets	-	-	-	-	2,376
Interest expense	(30,741)	(9,125)	(15,219)	(55,085)	-
Total nonoperating revenues (expenses)	(3,577)	(2,009)	(13,292)	(18,878)	4,293
CHANGE IN NET ASSETS	71,599	5,553	144,589	221,741	25,483
TOTAL NET ASSETS - BEGINNING	3,840,143	1,973,966	512,526	6,326,635	415,337
TOTAL NET ASSETS - ENDING	\$ 3,911,742	\$ 1,979,519	\$ 657,115	\$ 6,548,376	\$ 440,820
Net change in net assets - total business-type activities				\$ 221,741	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				1,764	
Change in net assets of business-type activities				\$ 223,505	

See notes to the financial statements

City of Otsego
STATEMENT OF CASH FLOWS - proprietary funds
Year ended June 30, 2005

	Business-type activities - Enterprise Funds				Governmental activities
	Sewer	Water	Land Development	Totals	DPW Equipment
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers	\$ 577,092	\$ 392,235	\$ 110,097	\$ 1,079,424	\$ 154,689
Payments to suppliers	(232,850)	(200,711)	(59,435)	(492,996)	(59,108)
Payments to employees	(161,137)	(135,479)	-	(296,616)	(26,858)
Net cash provided by operating activities	<u>183,105</u>	<u>56,045</u>	<u>50,662</u>	<u>289,812</u>	<u>68,723</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Increase (decrease) in due to other funds	(124,825)	10,078	(60,000)	(174,747)	265
Interfund loan interest	-	-	(1,726)	(1,726)	-
Principal payments on long-term debt	-	-	(59,471)	(59,471)	-
Interest payments on long-term debt	-	-	(17,038)	(17,038)	-
Net cash provided by (used in) noncapital financing activities	<u>(124,825)</u>	<u>10,078</u>	<u>(138,235)</u>	<u>(252,982)</u>	<u>265</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from sale of fixed assets	-	-	-	-	2,376
Acquisition of capital assets	-	(107,632)	-	(107,632)	(54,037)
Principal payments on long-term debt	(95,000)	(15,000)	-	(110,000)	-
Interest payments on long-term debt	(33,196)	(9,125)	-	(42,321)	-
Net cash used in capital and related financing activities	<u>(128,196)</u>	<u>(131,757)</u>	<u>-</u>	<u>(259,953)</u>	<u>(51,661)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	<u>25,750</u>	<u>5,541</u>	<u>1,927</u>	<u>33,218</u>	<u>1,917</u>
NET INCREASE (DECREASE) IN CASH	<u>(44,166)</u>	<u>(60,093)</u>	<u>(85,646)</u>	<u>(189,905)</u>	<u>19,244</u>
BALANCES - BEGINNING	<u>1,316,888</u>	<u>356,129</u>	<u>173,584</u>	<u>1,846,601</u>	<u>121,667</u>
BALANCES - ENDING	<u>\$ 1,272,722</u>	<u>\$ 296,036</u>	<u>\$ 87,938</u>	<u>\$ 1,656,696</u>	<u>\$ 140,911</u>
Reconciliation of operating income to net cash provided by operating activities					
Operating income	\$ 75,176	\$ 7,562	\$ 157,881	\$ 240,619	\$ 21,190
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation expense	102,819	61,124	-	163,943	46,294
(Increase) decrease in:					
Receivables, net	2,184	(11,869)	172	(9,513)	-
Due from other funds	1,188	1,085	-	2,273	(1,094)
Due from component unit	-	-	-	-	(210)
Inventory	(3)	(3,249)	(24,804)	(28,056)	809
Prepaid expenses	(335)	(111)	-	(446)	101
Increase (decrease) in:					
Accounts payable	(1,309)	(2,686)	638	(3,357)	875
Accrued liabilities	3,385	4,189	-	7,574	758
Customer deposits	-	-	(83,225)	(83,225)	-
Net cash provided by operating activities	<u>\$ 183,105</u>	<u>\$ 56,045</u>	<u>\$ 50,662</u>	<u>\$ 289,812</u>	<u>\$ 68,723</u>

See notes to the financial statements

City of Otsego
STATEMENT OF NET ASSETS - *fiduciary fund*
June 30, 2005

	<u>Agency Fund Type</u>
ASSETS	
Cash	\$ 1,339
Receivables - taxes	<u>1,989</u>
Total assets	<u>\$ 3,328</u>
LIABILITIES	
Due to other governmental units	\$ 1,828
Customer deposits	<u>1,500</u>
Total liabilities	<u>\$ 3,328</u>

See notes to the financial statements

City of Otsego
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the City of Otsego, Michigan (the City), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

The City is governed by an elected five-member Commission. The accompanying financial statements present the government and its component unit, entities for which the government is considered to be financially accountable. The component unit is reported in a separate column in the government-wide financial statements to emphasize it is legally from the government.

Discretely-presented component unit - Downtown Development Authority:

This unit is presented in a separate column in the combined financial statements to emphasize that it is legally separate from the City. Separate financial statements of the component unit have not been issued, as management believes these general purpose financial statements, including disclosures, contain complete information so as to constitute a fair presentation of the component unit. The component unit's governing body is appointed by the City Commission and its budget must be approved by the City Commission.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the City. The effect of all interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Special Assessment Capital Project Fund accounts for the construction or purchase of capital assets.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the operation of the City's sewage system and treatment plant.

The Water Fund accounts for the operation of the City's water mains and pumping facilities.

The Land Development Fund accounts for the development and sale of residential and commercial real estate for purposes of promoting economic development within the City.

Additionally, the government reports the following fund types:

The internal service fund accounts for the DPW equipment assets and rentals by various City departments.

The agency fund accounts for the collection and disbursements of delinquent taxes and deposits due to other units and individuals.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The government has elected not to follow subsequent private-sector standards.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits and investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income is proportionately allocated to all funds.

ii) Receivables and payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are considered to be fully collectible.

iii) Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

iv) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

iv) Capital assets (continued):

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Furniture, fixtures, and equipment	3 - 20 years
Vehicles	3 - 20 years
Sewer and Water systems	50 years

v) Compensated absences (vacation and sick leave) - It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the City. Vested compensated absences are accrued when earned in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

vi) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the functional level. Amounts encumbered for purchase orders, contracts, etc., are tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

The following schedule sets forth significant budget variations:

<u>Fund</u>	<u>Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General	Public works	\$ 463,795	\$ 473,684	\$ (9,889)

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - DEPOSITS:

The City's cash and cash equivalents, as shown in the government-wide statement of net assets are as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary</u>	<u>Total primary government</u>	<u>Component unit</u>
Cash	\$2,124,609	\$1,329,001	\$1,339	\$3,454,949	\$146,464
Cash on hand	692	-	-	692	-
Restricted assets	-	327,695	-	327,695	4,746
Total cash	<u>\$2,125,301</u>	<u>\$1,656,696</u>	<u>\$1,339</u>	<u>\$3,783,336</u>	<u>\$151,210</u>

Deposits are carried at cost and are maintained at various financial institutions in the name of the City. Michigan Compiled Laws, Section 129.91, authorizes the City to deposit and invest in the accounts of federally-insured banks, credit unions, and savings and loan associations. The City's deposits are in accordance with statutory authority. At June 30, 2005, the City has deposits with a carrying amount of \$3,782,644 and a bank balance of \$3,864,862. Of the bank balance, \$569,131 is covered by federal depository insurance and \$3,295,731 is uninsured. The component unit has deposits with a carrying amount of \$151,210 and a bank balance of \$151,027. Of the bank balance \$5,010 is covered by federal depository insurance, and \$146,017 is uninsured.

Custodial credit risk is the risk that, in the event of failure of the bank, the City will not be able to recover the value of its deposits. The City has an investment policy that addresses custodial credit risk. As of June 30, 2005 the City was exposed to custodial credit risk of \$3,295,731 and the component unit was exposed to custodial credit risk of \$146,017.

NOTE 4 - RECEIVABLES:

Receivables as of year end for the government's individual major and non-major funds, in the aggregate, are as follows:

	<u>General</u>	<u>Special Assessment Capital Project</u>	<u>Non-major</u>	<u>Totals</u>
Taxes receivable	\$ 918	\$ -	\$ -	\$ 918
Accounts	23,070	-	409	23,479
Special assessments	-	108,434	-	108,434
Intergovernmental	124,458	-	59,065	183,523
Net receivables	<u>\$148,446</u>	<u>\$108,434</u>	<u>\$ 59,474</u>	<u>\$316,354</u>
Non-current portion	<u>\$ -</u>	<u>\$ 88,984</u>	<u>\$ -</u>	<u>\$ -</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity of the City for the current year was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	\$ <u>780,815</u>	\$ <u>4,461</u>	\$ <u>12,778</u>	\$ <u>772,498</u>
Capital assets being depreciated:				
Buildings	2,151,738	-	122,741	2,028,997
Improvements	850,661	19,575	-	870,236
Furniture, fixtures, and equipment	732,834	27,192	1,290	758,736
Vehicles	<u>1,149,855</u>	<u>28,779</u>	<u>35,763</u>	<u>1,142,871</u>
Subtotal	<u>4,885,088</u>	<u>75,546</u>	<u>159,794</u>	<u>4,800,840</u>
Less accumulated depreciation for:				
Buildings	440,000	45,611	85,919	399,692
Improvements	54,566	40,502	-	95,068
Furniture, fixtures, and equipment	471,661	89,206	1,290	559,577
Vehicles	<u>658,181</u>	<u>60,116</u>	<u>35,763</u>	<u>682,534</u>
Subtotal	<u>1,624,408</u>	<u>235,435</u>	<u>122,972</u>	<u>1,736,871</u>
Net capital assets being depreciated	<u>3,260,680</u>	<u>(159,889)</u>	<u>(36,822)</u>	<u>3,063,969</u>
Total capital assets - net of depreciation	<u>\$4,041,495</u>	<u>\$(155,428)</u>	<u>\$(49,600)</u>	<u>\$3,836,467</u>
Business-type activities:				
Capital assets not being depreciated - land	\$ <u>23,052</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>23,052</u>
Capital assets being depreciated:				
Sewer system	4,752,327	-	51,175	4,701,152
Water system	<u>2,419,717</u>	<u>107,632</u>	<u>29,504</u>	<u>2,497,845</u>
Subtotal	<u>7,172,044</u>	<u>107,632</u>	<u>80,679</u>	<u>7,198,997</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Less accumulated depreciation for:				
Sewer system	\$1,696,198	\$102,819	\$ 51,175	\$1,747,842
Water system	<u>707,462</u>	<u>61,124</u>	<u>29,504</u>	<u>739,082</u>
Subtotal	<u>2,403,660</u>	<u>163,943</u>	<u>80,679</u>	<u>2,486,924</u>
Net capital assets being depreciated	<u>4,768,384</u>	<u>(56,311)</u>	<u>-</u>	<u>4,712,073</u>
Total capital assets - net of depreciation	<u>\$4,791,436</u>	<u>\$ (56,311)</u>	<u>\$ -</u>	<u>\$4,735,125</u>
Component unit:				
Capital assets not being depreciated:				
Land	\$ 98,069	\$ -	\$ -	\$ 98,069
Capital assets being depreciated:				
Buildings/Improvements	<u>1,060,764</u>	<u>171,698</u>	<u>-</u>	<u>1,232,462</u>
Less accumulated depreciation for:				
Buildings/Improvements	<u>-</u>	<u>21,215</u>	<u>-</u>	<u>21,215</u>
Net capital assets being depreciated:	<u>1,060,764</u>	<u>150,483</u>	<u>-</u>	<u>1,211,247</u>
Total capital assets - net of depreciation	<u>\$1,158,833</u>	<u>\$150,483</u>	<u>\$ -</u>	<u>\$1,309,316</u>

Depreciation expense was charged to programs of the City as follows:

Governmental activities:	
General government	\$ 32,549
Public safety	109,433
Public works	83,195
Recreation and culture	<u>10,258</u>
Total governmental activities	<u>\$235,435</u>
Business-type activities:	
Public works	<u>\$163,943</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - LONG-TERM LIABILITIES:

Long-term liabilities at June 30, 2005, are comprised of the following individual issues:

Business-type activities:

\$550,000 installment purchase agreement - land contract payable in annual installments of \$59,471 to \$71,838, plus interest at 6.50%; final payment due July 2007.	\$ 202,628
\$400,000 1975 Water Supply System Revenue Bonds - payable in annual installments of \$15,000 to \$20,000, plus interest at 5.00%; final payment due January 2015.	175,000
\$945,000 1989 Wastewater System Revenue Bonds - payable in annual installments of \$65,000 to \$85,000, plus interest at 7.20%; final payment due November 2008.	310,000
\$455,000 1989 Wastewater System Revenue Bonds - payable in annual installments of \$30,000 to \$45,000, plus interest at 7.05% to 7.15%; final payment due November 2008.	<u>155,000</u>
Total business-type activities long-term liabilities	<u>\$ 842,628</u>

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Governmental activities:					
Brewster land contract	\$ 15,334	\$ -	\$ (15,334)	\$ -	\$ -
Compensated absences	<u>92,933</u>	<u>67,505</u>	<u>(54,673)</u>	<u>105,765</u>	<u>-</u>
Governmental activities long-term liabilities	<u>\$ 108,267</u>	<u>\$ 67,505</u>	<u>\$ (70,007)</u>	<u>\$105,765</u>	<u>\$ -</u>
Business-type activities:					
1975 revenue bonds	\$ 190,000	\$ -	\$ (15,000)	\$175,000	\$ 15,000
1989 revenue bonds	375,000	-	(65,000)	310,000	70,000
1989 revenue bonds	185,000	-	(30,000)	155,000	35,000
Eley IV land contract	262,100	-	(59,472)	202,628	63,337
Compensated absences	<u>32,497</u>	<u>39,899</u>	<u>(33,320)</u>	<u>39,076</u>	<u>-</u>
Business-type activities long-term activities	<u>\$1,044,597</u>	<u>\$ 39,889</u>	<u>\$ (202,792)</u>	<u>\$881,704</u>	<u>\$183,337</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - LONG-TERM LIABILITIES (Continued):

Debt service requirements at June 30, 2005, were as follows:

	<u>Business-type activities</u>	
	<u>Principal</u>	<u>Interest</u>
Year ended June 30:		
2006	\$ 183,337	\$ 44,106
2007	192,453	33,388
2008	206,838	22,027
2009	145,000	4,749
2010	20,000	5,250
2011 - 2015	<u>95,000</u>	<u>11,374</u>
Totals	<u>\$ 842,628</u>	<u>\$120,894</u>

NOTE 7 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS:

The composition of interfund balances is as follows:

<u>Fund</u>	<u>Interfund receivables</u>	<u>Fund</u>	<u>Interfund payables</u>
General	\$ <u>18,886</u>	Sewer	\$ 5,489
		Water	10,946
		DPW Equipment	1,202
		Other governmental funds	<u>1,249</u>
			<u>18,886</u>
DPW Equipment	<u>12,652</u>	General	8,824
		Sewer	480
		Water	2,336
		Other governmental funds	<u>1,012</u>
			<u>12,652</u>
Other governmental funds	<u>100,136</u>	Land Development	100,000
		Other governmental funds	<u>136</u>
			<u>100,136</u>
Total	<u>\$131,674</u>	Total	<u>\$131,674</u>

A summary of interfund transfers for the year ended June 30, 2005, are as follows:

	<u>Transfer in</u>	<u>Transfer out</u>
Other governmental funds	<u>\$32,315</u>	<u>\$32,315</u>

In 2005, a transfer was used to move available unrestricted funds from one non-major governmental fund to another to finance local street costs.

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - ECONOMIC DEPENDENCY:

The City received approximately 23.6% of its property tax revenue from one industrial facility and 18.7% of its sewer and water utility revenue from the same facility.

Subsequent to June 30, 2005, this industrial facility ceased operations and closed the facility.

NOTE 9 - RISK MANAGEMENT:

The City is exposed to various risks of loss to general liability, property and casualty, workers' compensation, and employee health and medical claims. The risks of loss arising from general liability up to \$5,000,000, building contents, workers' compensation, employee medical, and casualty are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 10 - RETIREMENT PLAN:

The City maintains a defined contribution pension plan, which includes all of its full-time employees. The City contributes 10% of covered payroll to this plan on behalf of qualifying employees. The pension plan provides for various elections as to the retirement benefit determination. Benefits are vested after two years of credited service.

The City made the required contributions of \$122,561 for the year ended June 30, 2005. The City is not a trustee of these plans, nor is the City responsible for investment management of plan assets.

NOTE 11 - CONTINGENT LIABILITIES:

The City is contingently liable to its employees for approximately \$277,000 in accumulated non-vested sick pay benefits.

NOTE 12 - PRIOR PERIOD ADJUSTMENT:

Prior period adjustments have been recorded in 2005 that resulted in fund equity restatements. Fund equity as of July 1, 2004, included in the general purpose financial statements and the government-wide financial statements, represents restated balances as presented below. The following schedule identifies the nature and amount of the adjustments recorded.

	<u>General Fund</u>	<u>Governmental</u>
	<u>Fund balance</u>	<u>funds</u>
		<u>Net assets</u>
Beginning of year, as previously reported	\$ 576,581	\$ 5,997,793
Prior period adjustment -		
Understatement of amount due from other		
governmental units	<u>74,157</u>	<u>74,157</u>
Beginning of year, as restated	<u>\$ 650,738</u>	<u>\$ 6,071,950</u>

City of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 12 - PRIOR PERIOD ADJUSTMENT (Continued):

	<u><i>Sewer Fund</i></u>	<u><i>Land Development Fund</i></u>	<u><i>Business- type funds</i></u>
	<u><i>Net assets</i></u>	<u><i>Net assets</i></u>	<u><i>Net assets</i></u>
Beginning of year, as previously reported	\$ 3,846,837	\$ 528,143	\$ 6,348,946
Prior period adjustment -			
Understatement of accrued			
interest payable	<u>(6,694)</u>	<u>(15,617)</u>	<u>(22,311)</u>
Beginning of year, as restated	<u>\$ 3,840,143</u>	<u>\$ 512,526</u>	<u>\$ 6,326,635</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Otsego
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended June 30, 2005

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 1,392,670	\$ 1,395,285	\$ 1,407,855	\$ 12,570
Federal grants	-	1,945	2,883	938
State grants	401,700	401,700	398,504	(3,196)
Fines and forfeitures	15,000	15,000	16,698	1,698
Licenses and permits	64,250	67,750	69,198	1,448
Intergovernmental	90,000	92,000	68,565	(23,435)
Charges for services	43,000	40,580	49,446	8,866
Interest and rentals	10,000	23,000	27,219	4,219
Other	162,990	174,990	193,778	18,788
Total revenues	<u>2,179,610</u>	<u>2,212,250</u>	<u>2,234,146</u>	<u>21,896</u>
EXPENDITURES				
Legislative	9,700	9,700	12,258	(2,558)
General government	472,815	478,815	471,975	6,840
Public safety	903,865	939,375	931,542	7,833
Public works	458,295	463,795	473,684	(9,889)
Community and economic development	900	2,300	1,500	800
Recreation and culture	110,670	110,670	99,029	11,641
Debt service:				
Principal	15,335	15,335	15,334	1
Capital outlay	531,875	520,545	16,780	503,765
Total expenditures	<u>2,503,455</u>	<u>2,540,535</u>	<u>2,022,102</u>	<u>518,433</u>
NET CHANGE IN FUND BALANCE	(323,845)	(328,285)	212,044	540,329
FUND BALANCES - BEGINNING	<u>650,738</u>	<u>650,738</u>	<u>650,738</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 326,893</u>	<u>\$ 322,453</u>	<u>\$ 862,782</u>	<u>\$ 540,329</u>

SUPPLEMENTARY INFORMATION

City of Otsego
COMBINING BALANCE SHEET - non-major governmental funds
June 30, 2005

	<u>Special revenue funds</u>			<i>Total non-major governmental funds</i>
	<u>Major Street</u>	<u>Local Street</u>	<u>Street and Bridge</u>	
ASSETS				
Cash	\$ 274,641	\$ 215,670	\$ 485,825	\$ 976,136
Receivables	-	409	-	409
Prepaid expenses	735	752	-	1,487
Due from other funds	-	136	100,000	100,136
Due from other governmental units	44,269	14,796	-	59,065
Total assets	<u>\$ 319,645</u>	<u>\$ 231,763</u>	<u>\$ 585,825</u>	<u>\$ 1,137,233</u>
LIABILITIES AND FUND BALANCE				
<i>Liabilities</i>				
Accounts payable	\$ 2,577	\$ 1,191	\$ -	\$ 3,768
Accrued liabilities	1,041	779	-	1,820
Due to other funds	912	1,485	-	2,397
Total liabilities	4,530	3,455	-	7,985
<i>Fund balance, unrestricted</i>	<u>315,115</u>	<u>228,308</u>	<u>585,825</u>	<u>1,129,248</u>
Total liabilities and fund balance	<u>\$ 319,645</u>	<u>\$ 231,763</u>	<u>\$ 585,825</u>	<u>\$ 1,137,233</u>

City of Otsego

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - non-major governmental funds**

Year ended June 30, 2005

	<u>Special revenue funds</u>			<u>Total non-major governmental funds</u>
	<u>Major Street</u>	<u>Local Street</u>	<u>Street and Bridge</u>	
REVENUES				
State grants	\$ 213,594	\$ 73,675	\$ -	\$ 287,269
Intergovernmental	17,816	-	117,056	134,872
Interest	3,859	3,735	7,215	14,809
Other	463	516	-	979
Total revenues	235,732	77,926	124,271	437,929
EXPENDITURES				
Public works	98,200	53,358	-	151,558
EXCESS OF REVENUES OVER EXPENDITURES	<u>137,532</u>	<u>24,568</u>	<u>124,271</u>	<u>286,371</u>
OTHER FINANCING SOURCES (USES)				
Operating transfer in	-	32,315	-	32,315
Operating transfer out	-	-	(32,315)	(32,315)
Total other financing sources (uses)	<u>-</u>	<u>32,315</u>	<u>(32,315)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	137,532	56,883	91,956	286,371
FUND BALANCES - BEGINNING	<u>177,583</u>	<u>171,425</u>	<u>493,869</u>	<u>842,877</u>
FUND BALANCES - ENDING	<u>\$ 315,115</u>	<u>\$ 228,308</u>	<u>\$ 585,825</u>	<u>\$ 1,129,248</u>

City of Otsego
BALANCE SHEETS - governmental funds
June 30, 2005

	<u>General</u>	<u>Major Street</u>
ASSETS		
Cash	\$ 759,350	\$ 274,641
Receivables:		
Taxes	918	-
Special assessments	-	-
Accounts	22,268	-
Interest	802	-
Prepaid expenses	30,824	735
Due from other funds	18,886	-
Due from component unit	59,440	-
Due from other governmental units	<u>124,458</u>	<u>44,269</u>
 Total assets	 <u>\$ 1,016,946</u>	 <u>\$ 319,645</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts payable	\$ 66,937	\$ 2,577
Accrued liabilities	54,571	1,041
Due to other funds	8,824	912
Due to other governmental units	15,854	-
Due to component unit	-	-
Customer deposits	7,978	-
Deferred revenue	<u>-</u>	<u>-</u>
 Total liabilities	 <u>154,164</u>	 <u>4,530</u>
Fund balance		
Reserved:		
Building inspections	3,309	-
Drug law enforcement	98	-
Unreserved:		
Designated for fire truck	60,000	-
Undesignated	<u>799,375</u>	<u>315,115</u>
 Total fund balance	 <u>862,782</u>	 <u>315,115</u>
 Total liabilities and fund balance	 <u>\$ 1,016,946</u>	 <u>\$ 319,645</u>

<u>Local Street</u>	<u>Street and Bridge</u>	<u>Special Assessment Capital Project</u>
\$ 215,670	\$ 485,825	\$ 250,839
-	-	-
-	-	108,434
-	-	-
409	-	-
752	-	-
136	100,000	-
-	-	-
14,796	-	-
<u>\$ 231,763</u>	<u>\$ 585,825</u>	<u>\$ 359,273</u>
\$ 1,191	\$ -	\$ -
779	-	-
1,485	-	-
-	-	-
-	-	-
-	-	-
-	-	108,434
<u>3,455</u>	<u>-</u>	<u>108,434</u>
-	-	-
-	-	-
-	-	-
<u>228,308</u>	<u>585,825</u>	<u>250,839</u>
<u>228,308</u>	<u>585,825</u>	<u>250,839</u>
<u>\$ 231,763</u>	<u>\$ 585,825</u>	<u>\$ 359,273</u>

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND****BALANCE - BUDGET AND ACTUAL - General Fund**

Year ended June 30, 2005

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
Taxes	\$ 1,395,285	\$ 1,407,855	\$ 12,570
Federal grants	1,945	2,883	938
State grants	401,700	398,504	(3,196)
Fines and forfeitures	15,000	16,698	1,698
Licenses and permits	67,750	69,198	1,448
Intergovernmental	92,000	68,565	(23,435)
Charges for services	40,580	49,446	8,866
Interest and rentals	23,000	27,219	4,219
Other	<u>174,990</u>	<u>193,778</u>	<u>18,788</u>
Total revenues	<u>2,212,250</u>	<u>2,234,146</u>	<u>21,896</u>
EXPENDITURES			
Legislative	<u>9,700</u>	<u>12,258</u>	<u>(2,558)</u>
General government:			
City manager	65,695	67,237	(1,542)
Elections	3,000	4,359	(1,359)
Assessor	21,575	19,619	1,956
Board of review	750	697	53
Treasurer/finance director	184,840	183,795	1,045
Building and grounds	38,180	34,692	3,488
Cemetery	63,600	62,924	676
Other administration	<u>101,175</u>	<u>98,652</u>	<u>2,523</u>
Total general government	<u>478,815</u>	<u>471,975</u>	<u>6,840</u>
Public safety:			
Police	755,150	752,913	2,237
Fire	150,555	145,872	4,683
Building inspections	<u>33,670</u>	<u>32,757</u>	<u>913</u>
Total public safety	<u>939,375</u>	<u>931,542</u>	<u>7,833</u>

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND****BALANCE - BUDGET AND ACTUAL - General Fund (Continued)**

Year ended June 30, 2005

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)			
Public works:			
Department of public works	\$ 74,070	\$ 78,982	\$ (4,912)
General services	232,890	243,155	(10,265)
Sidewalks	14,565	1,373	13,192
Recycling	96,955	100,672	(3,717)
Transfer station	<u>45,315</u>	<u>49,502</u>	<u>(4,187)</u>
Total public works	<u>463,795</u>	<u>473,684</u>	<u>(9,889)</u>
Community and economic development	<u>2,300</u>	<u>1,500</u>	<u>800</u>
Recreation and culture:			
Parks and recreation	103,360	88,067	15,293
Community center	<u>7,310</u>	<u>10,962</u>	<u>(3,652)</u>
Total recreation and culture	<u>110,670</u>	<u>99,029</u>	<u>11,641</u>
Debt service:			
Principal	<u>15,335</u>	<u>15,334</u>	<u>1</u>
Capital outlay	<u>520,545</u>	<u>16,780</u>	<u>503,765</u>
Total expenditures	<u>2,540,535</u>	<u>2,022,102</u>	<u>518,433</u>
NET CHANGE IN FUND BALANCE	(328,285)	212,044	540,329
FUND BALANCES - BEGINNING	<u>576,581</u>	<u>650,738</u>	<u>74,157</u>
FUND BALANCES - ENDING	<u>\$ 248,296</u>	<u>\$ 862,782</u>	<u>\$ 614,486</u>

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - Major Street Fund**

Year ended June 30, 2005

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
State grants	\$ 227,000	\$ 213,594	\$ (13,406)
Intergovernmental	18,000	17,816	(184)
Interest	1,500	3,859	2,359
Other	-	463	463
	<u>246,500</u>	<u>235,732</u>	<u>(10,768)</u>
Total revenues			
EXPENDITURES			
Public works:			
Surface maintenance	28,305	15,792	12,513
Sweeping	5,700	6,321	(621)
Shoulder maintenance	600	87	513
Trees and shrubs	6,580	3,362	3,218
Drainage	5,495	2,073	3,422
Roadside cleanup	-	205	(205)
Bridge maintenance	870	1,746	(876)
Traffic signs and signals	9,700	7,318	2,382
Pavement marking	5,750	2,795	2,955
Winter maintenance	26,045	20,135	5,910
Administration	9,455	6,788	2,667
State trunk line maintenance	27,915	21,738	6,177
Construction	-	9,840	(9,840)
	<u>126,415</u>	<u>98,200</u>	<u>28,215</u>
Total expenditures			
NET CHANGE IN FUND BALANCE	120,085	137,532	17,447
FUND BALANCES - BEGINNING	<u>177,583</u>	<u>177,583</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 297,668</u>	<u>\$ 315,115</u>	<u>\$ 17,447</u>

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - Local Street Fund**

Year ended June 30, 2005

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES			
State grants	\$ 71,600	\$ 73,675	\$ 2,075
Interest	1,000	3,735	2,735
Other	-	516	516
Total revenues	<u>72,600</u>	<u>77,926</u>	<u>5,326</u>
EXPENDITURES			
Public works:			
Surface maintenance	33,115	10,468	22,647
Contracts	8,100	9,088	(988)
Shoulder maintenance	1,735	31	1,704
Trees and shrubs	16,815	11,447	5,368
Drainage	5,920	3,209	2,711
Roadside cleanup	-	960	(960)
Grass and weed control	360	4	356
Traffic signs and signals	3,795	1,081	2,714
Pavement marking	3,560	118	3,442
Winter maintenance	20,350	9,862	10,488
Administration	<u>11,165</u>	<u>7,090</u>	<u>4,075</u>
Total expenditures	<u>104,915</u>	<u>53,358</u>	<u>51,557</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(32,315)	24,568	56,883
OTHER FINANCING SOURCES			
Transfer from Street and Bridge Fund	<u>32,315</u>	<u>32,315</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	56,883	56,883
FUND BALANCES - BEGINNING	<u>171,425</u>	<u>171,425</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 171,425</u>	<u>\$ 228,308</u>	<u>\$ 56,883</u>

City of Otsego

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - *Street and Bridge Fund***

Year ended June 30, 2005

	<u><i>Amended budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
REVENUES			
Intergovernmental	\$ 100,000	\$ 117,056	\$ 17,056
Interest	<u>5,000</u>	<u>7,215</u>	<u>2,215</u>
Total revenues	105,000	124,271	19,271
OTHER FINANCING USES			
Transfer to Local Street Fund	<u>(32,315)</u>	<u>(32,315)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	72,685	91,956	19,271
FUND BALANCES - BEGINNING	<u>493,869</u>	<u>493,869</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 566,554</u>	<u>\$ 585,825</u>	<u>\$ 19,271</u>

City of Otsego

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND

BALANCE - BUDGET AND ACTUAL - *Special Assessment Capital Project Fund*

Year ended June 30, 2005

	<u><i>Amended Budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
REVENUES			
Interest	\$ 4,175	\$ 8,225	\$ 4,050
Other - special assessment revenue	<u>19,450</u>	<u>23,061</u>	<u>3,611</u>
Total revenues	23,625	31,286	7,661
FUND BALANCES - BEGINNING	<u>219,553</u>	<u>219,553</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 243,178</u>	<u>\$ 250,839</u>	<u>\$ 7,661</u>

City of Otsego**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - Sewer Fund**

Year ended June 30, 2005

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
OPERATING REVENUES			
Charges for services	\$ 606,200	\$ 561,331	\$ (44,869)
Delinquent penalties	10,000	11,894	1,894
Other	-	495	495
	<u>616,200</u>	<u>573,720</u>	<u>(42,480)</u>
Total operating revenues			
OPERATING EXPENSES			
Mains	63,710	49,610	14,100
Wastewater treatment plant	261,410	292,983	(31,573)
Administration	54,735	53,132	1,603
Depreciation	99,800	102,819	(3,019)
	<u>479,655</u>	<u>498,544</u>	<u>(18,889)</u>
Total operating expenses			
OPERATING INCOME	<u>136,545</u>	<u>75,176</u>	<u>(61,369)</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	10,000	27,164	17,164
Interest expense	(33,200)	(30,741)	2,459
	<u>(23,200)</u>	<u>(3,577)</u>	<u>19,623</u>
Total nonoperating expenses			
CHANGE IN NET ASSETS	113,345	71,599	(41,746)
NET ASSETS - BEGINNING	<u>3,846,837</u>	<u>3,840,143</u>	<u>(6,694)</u>
NET ASSETS - ENDING	<u>\$ 3,960,182</u>	<u>\$ 3,911,742</u>	<u>\$ (48,440)</u>

City of Otsego**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - *Water Fund****Year ended June 30, 2005*

	<u><i>Amended budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
OPERATING REVENUES			
Charges for services	\$ 378,200	\$ 390,078	\$ 11,878
Hydrant rentals	6,370	6,370	-
Delinquent penalties	3,600	3,915	315
Other	-	2,656	2,656
	<u>388,170</u>	<u>403,019</u>	<u>14,849</u>
OPERATING EXPENSES			
Mains	140,545	163,011	(22,466)
Water pumping	119,340	127,145	(7,805)
Administration	51,640	44,177	7,463
Depreciation	47,900	61,124	(13,224)
	<u>359,425</u>	<u>395,457</u>	<u>(36,032)</u>
	<u>28,745</u>	<u>7,562</u>	<u>(21,183)</u>
OPERATING INCOME			
NONOPERATING REVENUES (EXPENSES)			
Interest income	3,000	7,116	4,116
Interest expense	(9,125)	(9,125)	-
	<u>(6,125)</u>	<u>(2,009)</u>	<u>4,116</u>
	<u>22,620</u>	<u>5,553</u>	<u>(17,067)</u>
CHANGE IN NET ASSETS			
NET ASSETS - BEGINNING	<u>1,973,966</u>	<u>1,973,966</u>	<u>-</u>
NET ASSETS - ENDING	<u>\$ 1,996,586</u>	<u>\$ 1,979,519</u>	<u>\$ (17,067)</u>

City of Otsego**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - Land Development Fund**

Year ended June 30, 2005

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
OPERATING REVENUES			
Sale of developed lots	\$ 430,000	\$ 429,165	\$ (835)
OPERATING EXPENSES			
Cost of developed lots	215,000	211,211	3,789
Contracts	-	-	-
Engineering	-	-	-
Legal expense	7,500	8,103	(603)
Advertising	500	577	(77)
Property taxes	51,400	51,393	7
Total operating expenses	274,400	271,284	3,116
OPERATING INCOME	155,600	157,881	2,281
NONOPERATING REVENUES (EXPENSES)			
Interest income	-	1,927	1,927
Interest expense	(23,415)	(15,219)	8,196
Total nonoperating expenses	(23,415)	(13,292)	10,123
CHANGE IN NET ASSETS	132,185	144,589	12,404
NET ASSETS - BEGINNING	512,526	512,526	-
NET ASSETS - ENDING	\$ 644,711	\$ 657,115	\$ 12,404

City of Otsego**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUDGET AND ACTUAL - DPW Equipment Fund**

Year ended June 30, 2004

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
OPERATING REVENUES			
Equipment rental	\$ 150,000	\$ 142,361	\$ (7,639)
Reimbursements	8,000	13,632	5,632
Total operating revenues	<u>158,000</u>	<u>155,993</u>	<u>(2,007)</u>
OPERATING EXPENSES			
Equipment pool operations	113,750	90,444	23,306
Depreciation	<u>45,000</u>	<u>44,359</u>	<u>641</u>
Total operating expenses	<u>158,750</u>	<u>134,803</u>	<u>23,947</u>
OPERATING INCOME	<u>(750)</u>	<u>21,190</u>	<u>21,940</u>
NONOPERATING REVENUES			
Interest income	750	1,917	1,167
Gain on sale of fixed assets	<u>4,000</u>	<u>2,376</u>	<u>(1,624)</u>
Total nonoperating revenues	<u>4,750</u>	<u>4,293</u>	<u>(457)</u>
CHANGE IN NET ASSETS	4,000	25,483	21,483
NET ASSETS - BEGINNING	<u>415,337</u>	<u>415,337</u>	<u>-</u>
NET ASSETS - ENDING	<u>\$ 419,337</u>	<u>\$ 440,820</u>	<u>\$ 21,483</u>

City of Otsego
BALANCE SHEET - Downtown Development Authority
June 30, 2005

ASSETS

Cash	\$ 146,464
Restricted cash	4,746
Prepaid expenses	<u>643</u>
Total assets	<u>\$ 151,853</u>

LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$ 5,645
Retainages payable	4,746
Accrued liabilities	374
Due to primary government	<u>59,935</u>

Total liabilities	70,700
-------------------	--------

<i>Fund balance, unrestricted</i>	<u>81,153</u>
--	---------------

Total liabilities and fund balance	<u>\$ 151,853</u>
------------------------------------	-------------------

City of Otsego**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - Downtown Development Authority***Year ended June 30, 2005*

	<u><i>Amended budget</i></u>	<u><i>Actual</i></u>	<u><i>Variance favorable (unfavorable)</i></u>
REVENUES			
Tax increment financing	\$ 236,190	\$ 236,198	\$ 8
Memorial tree program	1,000	65	(935)
Interest income	4,000	3,303	(697)
Other	<u>-</u>	<u>1,635</u>	<u>1,635</u>
Total revenues	<u>241,190</u>	<u>241,201</u>	<u>11</u>
EXPENDITURES			
Public works - District administration	253,665	210,248	43,417
Capital outlay	<u>115,000</u>	<u>171,871</u>	<u>(56,871)</u>
Total expenditures	<u>368,665</u>	<u>382,119</u>	<u>(13,454)</u>
NET CHANGE IN FUND BALANCE	(127,475)	(140,918)	(13,443)
FUND BALANCES - BEGINNING	<u>222,071</u>	<u>222,071</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 94,596</u>	<u>\$ 81,153</u>	<u>\$ (13,443)</u>